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SUBJECT: INDIA SCENESETTER FOR CODEL LEWIS AND BACHUS

1. (SBU) We welcome your upcoming visit as part of the 50th anniversary celebration of Dr. Martin Luther King, Jr's historic journey to India in February-March 1959. The inspiration which Dr. King and other leaders of the American civil rights movement drew from Mahatma Gandhi is well known in India - and the Government of India has been pleased to co-sponsor events on this tour. The message of Dr. King's visit - of non-violence, justice and human dignity - ring true today, underlying the deeply helped principles and values that unite the U.S. and India.

2. (SBU) We offer this snapshot of the bilateral relationship as background for your visit. The historically unprecedented level of U.S.-India collaboration encompasses everything from defense cooperation to agriculture and reflects widespread support in both countries for widening existing ties and building new ones. India and the U.S. have begun coordinating foreign policies, working more closely together than we ever have before, as exemplified by our parallel efforts to assist Afghan reconstruction, to maintain regional stability in Nepal and to cooperate on law enforcement following the November terrorist attacks in Mumbai. This cooperation reflects a transformation in India. For many decades, the default position was distrust and suspicion, but now we see an India that seeks increasingly to further shared interests.

21st Century Challenges: Health, Education, Energy

3. (SBU) Despite India's steady economic growth during the past fifteen years, which accelerated in the last five years, an unhealthy population constrains economic growth in parts of India. Some states in northern India possess health indicators on-par with the poorest countries of sub-Saharan Africa. According to most recent estimates, India with 2.5 million HIV/AIDS cases is the third highest HIV/AIDS infected population worldwide, after South Africa and Nigeria. One quarter of the world's deaths of children and women in childbirth occur in India. Forty-six percent of children under three years of age are malnourished.

4. (SBU) Poor health conditions take an economic toll in various ways, including continued expenditures on combating diseases that should have been eliminated and decreased labor productivity and human capacity. India's education system is

not providing the numbers of people with the necessary skills for the modern economy because of poor quality primary education and limited vocational training. The impact of poor basic education and work force development includes a sixty percent drop-out rate for children before grade 10 and 10 million children are out of school. Finally, while India's energy consumption has more than doubled over the last quarter century, half of the country's population still lacks easy affordable access to electricity. India realizes the threats these challenges pose to its continued economic progress. Indian public and private sector partners look to U.S. expertise and knowledge, including through the U.S. assistance program, to direct resources with appropriate policies, strengthened institutions and state-of-the-art technologies and expertise.

Terrorism

15. (SBU) The anger over the November Mumbai attacks may be less visible now, but India expects Pakistan to arrest and try Pakistanis involved in planning and organizing the attack and to dismantle terrorist infrastructure. The November Mumbai terrorist attacks deeply angered the Indian public. This time, in addition to the reactions against Pakistan, Indians directed a new level of fury at their own political establishment, which they feel failed to protect them. The public's anger pushed the Congress Party-led government of Prime Minister Singh to shelve the bilateral Composite Dialogue that was focused on resolving contentious

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issues, including ultimately Kashmir. While the GOI and Congress Party leaders have made muscular statements demanding the GOP investigate and prosecute those involved in the attack and asserting that no option has been foreclosed, India's strategy has been to pursue a diplomatic rather than a military solution. India has launched a worldwide diplomatic offensive to put pressure on Pakistan.

Increased Law Enforcement Cooperation

16. (SBU) We believe the most constructive approach to take with the GOI is to offer assistance and to encourage the GOI to focus on improving security preparedness and prevention of terrorist attacks. Historically, the GOI had been a reluctant law enforcement partner. But after Mumbai, we have seen unprecedented law enforcement cooperation between India and the U.S., primarily with the FBI. The Indians have also become far more amenable to accepting our many offers of counterterrorism assistance.

Domestic Political Landscape

17. (SBU) The political season entered its final lap this month when the two main political parties held political conferences to kick off their campaigns for the upcoming parliamentary elections. The political establishment will now be single-mindedly focused on these elections until June when the new Parliament convenes and the next government is sworn in. Domestic political considerations will be paramount for the next three months. As the campaign heats up, we can expect the political attacks to get sharper and the rhetoric to become shriller.

18. (SBU) The current Congress Party-led United Progressive Alliance (UPA) coalition government, which appeared to be in trouble only months ago, has recovered smartly. It has successfully deflected the fall-out from the Mumbai terror attacks by keeping the international pressure on Pakistan and announcing plans to strengthen its capacity to fight terrorism. In contrast, the opposition Bharatiya Janata Party (BJP), which had the wind in its sails last summer, has suffered of late. It experienced a crushing loss at the

hands of the UPA in a parliamentary vote last summer on US-India civil-nuclear initiative. It continues to be racked by low intensity but persistent infighting that undermines its image of a well-disciplined political machine.

¶9. (SBU) It is impossible to predict now which party will emerge on top in the national elections. But it is safe to say that neither the Congress Party nor the BJP is likely to win a majority on its own and either will have to forge a coalition with the smaller regional parties to form a government. While both the BJP and the Congress support a closer U.S.-India relationship, their ability to move forward aggressively will be constrained by the disproportionate power of smaller parties, which have narrower agendas that frequently do not extend to foreign policy issues. The nuclear deal and a closer strategic relationship with the United States have generated an extraordinary public debate in India during the last year. We have won this debate hands down and, as a result, the U.S.-India relationship has a strong foundation on which to grow over the coming decades.

Civil Nuclear Cooperation

¶10. (SBU) The U.S.-India Civil Nuclear Cooperation Agreement was approved by a large bipartisan majority in the House and Senate in September, signed by Secretary Rice and External Affairs Minister Mukherjee in Washington October 10, and brought into force by an exchange of diplomatic notes on December 6. India viewed the signing of the Agreement as an historic event and shares our vision of the Agreement as an essential part of transforming our relationship. The

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Agreement no longer dominates the headlines, but the goodwill it generated has contributed to improved cooperation following the Mumbai terrorist attacks.

Regional Issues

¶11. (SBU) Under Prime Minister Singh's leadership, GOI is emerging as a responsible leader in the region, as well as in Asia at large. India encourages democracy in the region, but is concerned about continuing political instability in both Nepal and Bangladesh and the surge in violence in Sri Lanka. We have followed closely as India and China have sought warmer relations by engaging in a strategic dialogue that separates the contentious border issues from a broader engagement. India is the fifth largest donor to Afghanistan's reconstruction, pledging more than \$1.2 billion to date. While we have made remarkable progress in our bilateral relationship over the past decade, greater cooperation on regional and global issues remains an area for us to build on.

Economic Ties

¶12. (SBU) The U.S.-India economic relationship, for decades narrow and circumspect, is gathering steam and is becoming a key driver of our overall bilateral relationship. The United States is India's largest trading partner and its largest foreign investor. Two-way merchandise trade grew to a record 42 billion dollars in 2007, with U.S. exports surging 75 percent. We may well meet our 2005 publicly stated goal of doubling bilateral trade by the end of 2008, once last year's final numbers are in. At the same time, investment has surged between our countries in recent years, prompting agreement to launch negotiations in January on a bilateral investment treaty. Led by its economist Prime Minister, India was proud to participate in the G-20 Financial Summit in November and publicly supports G-20 goals. However, the government has reinstated some protectionist tariffs, undermining G-20 consensus to keep international trade flowing during these challenging

economic times.

¶13. (SBU) The Indian economy continues to be the second fastest growing economy after China, even as the global slowdown and financial crunch moderate GDP growth from 9% in fiscal year (FY) 2007-08 to an anticipated 7% in FY 2008-09. Most of India's growth is domestically generated and the government's current pre-election expansionary budget provided a fiscal stimulus that should help sustain consumer demand. India's conservative central bank had restricted many of the derivative innovations linked to the global financial crisis, creating insulation for much of the banking sector. However, India's globalizing companies and banks are feeling the pinch of tougher foreign financing conditions, but this has not prompted the private sector or the government to denounce India's integration with the international financial system. Rather, India's central bank and SEC-equivalent have liberalized foreign capital inflows and investment procedures while the GOI is considering easing foreign direct investment (FDI) constraints. The government has also been quick to offer concessions to the labor-intensive textile and jewelry export sectors, hit by slowing global demand. The government anticipates the slowdown will lead to 1.0-1.5 million job losses by March 31 in these and other industrial sectors (out of India's 400-million strong labor force), but there have been no protests to date.

¶14. (SBU) In the medium term, India will find it hard to increase or even sustain its high growth rates unless it undertakes a second generation of critical but politically difficult reforms -- especially in the financial, energy and agricultural sectors, education and labor laws. While the government is led by economists who understand what needs to

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be done, its economic reform program was stalled for a long time as the UPA confronted strong opposition from the Left, the BJP and within the Congress party itself. Since the Left withdrew its support in July 2008 over the US-India civil nuclear agreement, the government has implemented some non-legislative reforms, the largest being the opening of the pension sector, but further Parliamentary action appears unlikely until after national elections are held this spring and a new government is instituted. Regardless of who wins, we expect the new government to continue economic liberalization. As it is, lagging growth in agriculture and a weak - but improving - infrastructure constrain growth. Economic liberalization has been slow to come to the agricultural sector, which supports more than half of the country's population and yet accounts for only 18 percent of GDP. The top Indian economic priorities are physical and human infrastructure development and spreading economic benefits into rural India.

Agriculture: An Opportunity to Build Partnerships

¶15. (SBU) On agriculture, with the Agricultural Knowledge Initiative (AKI) in 2008 following its 2005 launch by President Bush and PM Singh, the Indians have told us they are eager to continue bilateral cooperation in this sector that employs more than half of all Indians workers, many at a subsistence level. The Indians have responded positively to our concept of a four pillar approach --productivity, market efficiency, environmental sustainability, and finance/insurance -- that would procedurally look similar to our successful Energy Dialogue with India. However, we will not be able to table our proposal to India until we can back it up with significant USG funding.

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